



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Public Hearing to Consider the Establishment of a City Charter
MEETING DATE: March 6, 1996
PREPARED BY: City Attorney

RECOMMENDATION: Council to conduct a public hearing to consider whether or not the City of Lodi should adopt a charter.

BACKGROUND: On May 7, 1995 the Council designated itself as a charter committee to oversee the drafting of a City Charter. The previously developed schedule indicated that meetings would be held for public input during the months of July through December 1995. Clearly that did not occur. If the City is to put the matter before the electorate in November of 1996, it is necessary to move on a rather expedited schedule of public hearings to accomplish the acquisition of input for the formation of the charter. The March 6, 1996 public hearing is the first of such meetings.

Since the placement of the question of whether or not to have a charter is characterized as a ballot measure, it is necessary that the decision to place the matter on the ballot be done by July 19, 1996. This date is based upon the time periods that need to be accommodated for the filing of arguments for or against the particular ballot measure.

FUNDING: None Required.

Respectfully submitted,

Randall A. Hays
City Attorney

APPROVED: _____

H. DIXON FLYNN
City Manager



CITY OF LODI

Carnegie Forum
305 West Pine Street, Lodi

NOTICE OF PUBLIC HEARING

Date: March 6, 1996

Time: 7:00 p.m.

For information regarding this notice please contact:

Jennifer M. Perrin

City Clerk

Telephone: (209) 333-6702

NOTICE OF PUBLIC HEARING

NOTICE IS HEREBY GIVEN that on **Wednesday, March 6, 1996** at the hour of 7:00 p.m., or as soon thereafter as the matter may be heard, the City Council will conduct a Public Hearing at the Carnegie Forum, 305 West Pine Street, Lodi, to consider the following matter:

a) Possible establishment of City Charter

All interested persons are invited to present their views and comments on this matter. Written statements may be filed with the City Clerk at any time prior to the hearing scheduled herein, and oral statements may be made at said hearing.


If you challenge the subject matter in court, you may be limited to raising only those issues you or someone else raised at the Public Hearing described in this notice or in written correspondence delivered to the City Clerk, P.O. Box 3006, at or prior to the Public Hearing.

By Order of the Lodi City Council:


Jennifer M. Perrin
City Clerk

Dated: February 21, 1996

Approved as to form:


John Luebberke
Deputy City Attorney



M E M O R A N D U M F R O M T H E
O F F I C E O F T H E C I T Y
A T T O R N E Y

DATE: March 6, 1996

TO: Honorable Mayor & City Council Members

FROM: Randy Hays, City Attorney

RE: Prevailing Wage A Perspective

In reviewing the file which I have regarding the prior activities of the City Council relative to the question of a city charter, one of the items that seems to be of importance is the question of prevailing wage. Therefore the purpose of this memo is to flesh out that topic relative to some real numbers. The real numbers are based upon information provided to me by the Public Works Department regarding public works projects that include general fund funded projects and enterprise fund funded projects.

The key here is that only those public works projects which contain only City of Lodi dollars are counted. That is because if you have a public works project which has state dollars or federal dollars in it, it is required under the terms of the receipt of those dollars that either California Prevailing Wage Rates are paid or that federal Davis-Bacon Act wage rates are paid. There is no way around those requirements. With regard to the numbers provided a couple of assumptions were made. On an average it is assumed that fifty percent of the dollars in a public works project are attributable to labor. That doesn't hold true for all projects. Some of the projects were significantly less labor intensive. Those were assumed to have labor costs of twenty percent.

The following numbers represent the labor dollars that were susceptible to some savings possibly for the years listed:

1991	\$ 52,632
1992	\$ 32,495
1993	\$ 21,347
1994	\$ 446,928
1995	\$1,011,834

These numbers represent dollars from the general fund. It should also be pointed out that 1994 and 1995 really represent inflated numbers since in those years the City had extraordinary expenses associated with the refurbishing undertaking of old City Hall.

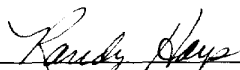
For enterprise fund expenditures the figures are as follows:

1991	\$136,650
1992	\$205,547
1993	\$ 57,499
1994	\$226,796
1995	\$446,574

Whether or not any money would be saved by not being compelled to pay prevailing wage on the labor numbers just referenced is the real subject of the debate. However, there is certainly an argument to be made that some savings would occur. The level of savings that can occur is really not a known quantity. However, you frequently hear numbers in the range of 15 to 20% being available to be saved. If for the sake of argument you use 15 or 20% the amount of dollars that potentially can be saved on labor costs would simply be that percentage times the numbers that are contained in this memo for the various years.

This memo does not attempt to say that there in fact would be savings since it is not possible to know how a particular job would be bid. The idea of this memo however is to put some flesh onto a skeleton in order to guide any discussion on this issue.

Respectfully submitted,



Randy Hays, City Attorney

cc: City Manager

RECEIVED
MARCH 8 PM 4: 00
R. GUS GUSTAFSON
5525 HILDRETH LANE
STOCKTON, CA 95212

LODI CITY COUNCIL
P.O. BOX 3006
LODI, CA 95241-1910

March 6, 1996

RE: CITY CHARTER

I wish to voice my opposition to elimination of the prevailing wages proposed by this new charter.

I am an estimator for a major employer in the Stockton area and the prevailing wage allows us to provide work for our local employees. Prevailing wage allows to provide a living wage, health and welfare benefits, and pension benefits. It also provides health and welfare for pensioned workers as well as providing for apprenticeship training.

I have been estimating and doing field work as an Operating Engineer since 1964 and have had the opportunity to bid for both union and non-union contractors and it is a total fallacy that by doing away with prevailing will save you money.

Having to bid jobs for the non-union employer I've had to increase the prices because of questionable productivity and sub standard equipment. This has led to prices being somewhat higher than union contractors. Also figured into various bids is the reality that the non-union contractor usually tries to negate the plans and specifications.

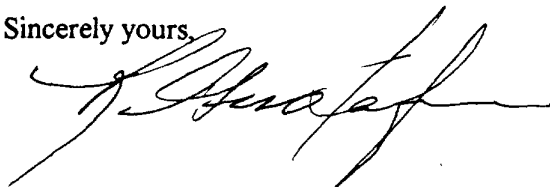
I am proud to have lived in the Lodi/Stockton area and have given many, many hours and days, weekends and holidays over the past twenty years to officiating swim meets for the LODI CITY SWIM CLUB, TOKAY HIGH SCHOOL SWIM PROGRAM, and the LODI HIGH SCHOOL SWIM PROGRAM. If I were not getting a decent prevailing wage; I would not have been able to donate this time to the development of the children in this area.

I have even had the pleasure of watching some Council members both past and present children develop into class A swimmers and water polo players.

I feel by donating my time in this more than pays back my appreciation for the community.

Please if this Charter proposal is introduced again keep this letter in your files for reference.

Sincerely yours,



Prevailing Wage Laws in Construction:

The Costs of Repeal to Wisconsin

Dale Belman,
Associate Professor of Economics and Industrial Relations,
University of Wisconsin - Milwaukee

Paula B. Voos,
Professor of Economics,
University of Wisconsin - Madison

January, 1996 (revised)

**THE INSTITUTE FOR
WISCONSIN'S FUTURE**

**Prevailing Wage Laws in Construction:
The Costs of Repeal in Wisconsin**

TABLE OF CONTENTS

Background	Page 1
Executive Summary	Page 2
Prevailing Wage Statutes: Impact on the State Economy	
Maintaining Local Wage Levels	Page 5
Impact of Repeal on Workers	Page 5
Impact on State of Wisconsin Revenue	Page 6
Maintaining Quality Standards on Public Construction	Page 7
Supporting Comprehensive Employee Training	Page 8
Opposition to Prevailing Wage Statutes	
Do Prevailing Wage Laws Increase the Cost of Public Construction and Hurt Public Budgets?	Page 9
Do Prevailing Wage Laws Disadvantage Minorities?	Page 10
Conclusion	Page 12
Bibliography	Page 13
Notes	Page 15

BACKGROUND

Definition of Prevailing Wage Laws

The federal Davis-Bacon Act and the state prevailing wage standards require construction contractors working on government funded projects to pay their employees wages no less than the average wage paid in their occupation by private contractors in the locality. The first prevailing wage statute was passed by the state of Kansas in 1891. Laws applying to federally funded contracts were passed in 1931. Prevailing wage laws were enacted to maintain community wage standards, support local economic stability and to protect taxpayers from sub-standard labor on state and federal projects.

Along with 31 other states and the District of Columbia, Wisconsin has its own prevailing wage law, known as "little Davis-Bacon." The provisions of Wisconsin law are similar to those of the federal statute, except that Wisconsin law does not apply to projects as small as those covered by federal statute, and the prevailing wage is defined as the modal (most common) wage. The Wisconsin law is also broader in scope, applying to truck drivers and truck rental rates. Prevailing wage standards in Wisconsin are determined by the market rate of a given community, measured with data from union and non-union firms by the Department of Industry, Labor and Human Relations.

Basis for Establishment of Prevailing Wage

Prevailing wage laws were passed at the national and state level in the 1930's to protect state jobs threatened by out-of-state contractors who hired itinerant laborers at low wages and won federal contracts by bidding lower than local companies could afford. These laws set clear parameters to ensure that contractors bid on public projects on the basis of skill and efficiency, not on how poorly they pay their workers.

The construction industry differs from most industries in the brevity of most projects, the short-lived attachment between employers and employees, and the methods used by government to contract for work. These factors combine to create fierce downward pressures on wages and benefits in public construction projects which go to the lowest bidder. As materials' costs are fairly standard for all contractors, wages are one of the few areas in which contractors can gain a competitive advantage. Unlike employees in most industries, employees in construction are seldom employed for long by a single firm. Instead they work for one firm on one project and when that is completed, seek work on another project, often with another firm. Weather and industry cycles may cause long delays between jobs. Except in periods when construction is booming, employees are not in a position to refuse a job because pay and benefits are substandard. Prevailing wage laws were developed to protect wage levels under this competitive bid system.

EXECUTIVE SUMMARY

The Davis-Bacon Act, established to protect local wage levels on publicly-funded construction projects, is being challenged in Congress. Attempts to repeal Davis-Bacon and weaken state prevailing wage laws are based on the claim that repeal will bolster state and federal budgets. However, in the nine states in which prevailing wage laws were repealed in the 1980's, state budgets and taxpayers did not benefit. In fact, repeal of these regulations actually resulted in a loss to state budgets and had a negative impact on state economies. The problematic consequences of repeal included:

- Lower wages for all construction workers
- Reduced tax revenues available to state governments
- Lower quality construction and increased cost overruns
- A severely weakened system of construction apprenticeship training
- Increased occupational injuries and increased costs for workers' compensation
- Lowered minority participation in construction job training and increased minority unemployment in the skilled trades.

Findings:

1. The decrease in wages to construction workers due to repeal of wage standards results in a major loss of tax revenue to state governments. In Wisconsin, repeal of the federal wage statute, the Davis-Bacon Act, would lead to a \$4.3 million annual loss in tax revenues. Repeal of the state statutes in addition to the federal law would lead to an overall loss of \$17.2 million.

In states which repealed prevailing wage laws, average earnings dropped for all construction workers -- union, non-union, those working on public projects, and those working on private projects. Repeal itself caused an average decline of \$1,483 in earnings (4.9% of construction income).

Repeal of Davis-Bacon would cost Wisconsin's 100,000 construction workers approximately \$45.7 million a year in lost income. This estimate includes projected employment changes subsequent to repeal, but does not include possible "ripple effects" occurring when other state residents experience income declines due to reduced spending by construction workers. With simultaneous repeal of federal and Wisconsin wage laws, construction workers in Wisconsin could lose almost \$182.7 million in income.

2. Repeal of the prevailing wage laws would hurt, not help, the Wisconsin state budget. This study shows that the decline in state income and sales tax revenues would exceed the minimal savings in construction costs to the state derived from decreasing worker wages.

If the Davis-Bacon Act is repealed, the tax revenue loss of \$4.3 million exceeds the \$1.5 million savings in construction costs creating a net loss to the state of \$2.8 million per year. If both the state and federal statutes are eliminated, this loss would more than triple to \$11.2 million. At the national level, researchers predict that the repeal of the Davis-Bacon Act would lead to an increase in the federal deficit of \$1 billion. Wisconsin taxpayers would ultimately bear a portion of the

negative impact of this increase in federal debt.

Effect of Repeal of Prevailing Wage Laws
(in millions of dollars)

	State Law	Davis Bacon	Both
Cost Savings - State Projects	4.5	1.5	6.0
Revenue Loss to State	-12.9	-4.3	-17.2
Net Effect on State Budget	-8.4	-2.8	-11.2

3. In states that have repealed prevailing wage laws, occupational injuries have increased. This results in higher workers' compensation costs.

Serious construction injuries increased in the states where prevailing wage laws were repealed. Plumbers and pipefitters experienced an average of 15% more serious injuries per year following repeal. This increase in injuries is due to a combination of factors -- the use of inexperienced workers, a decline in training and cut-throat competition. When contractors are forced to reduce labor costs, workers are often pressured to speed up and take more chances. These and other factors increase accidents in an already hazardous industry. Of the \$62 billion spent on workers' compensation nationwide, about 30% covers construction-related injuries and illnesses. Repeal of Davis-Bacon and/or state statutes would cause a substantial increase in workers' compensation costs in Wisconsin.

4. Elimination of prevailing wage statutes leads to increased costs associated with the use of low-wage workers.

Lower construction wages in repeal states have led to reduced levels of worker skill and efficiency, higher maintenance costs and a dramatic increase in project cost overruns. According to a HUD Audit Report, poor workmanship resulting from the use of inexperienced or unskilled workers and short cut construction leads to excessive maintenance costs and increased risk of defaults and foreclosures. Use of high-wage, high skill labor may lead to lower total final costs, particularly in complex projects where productivity and skill is important. In addition, quality construction lowers maintenance costs. Repeal of laws in Utah resulted in additional direct construction costs as cost overruns on state road construction tripled. In addition, with repeal, fewer construction workers are likely to receive paid health insurance. This could cause publicly-financed health care costs to rise, increasing the burden on state budgets.

5. Current proposals to eliminate prevailing wage statutes threaten the stability of the apprenticeship training system. This system ensures a skilled labor force and provides minorities with increased access to construction jobs.

Prevailing wage statutes have proven to be a crucial foundation for the apprenticeship training system in construction. In Utah, repeal led to the virtual collapse of the apprenticeship system. Union capacity to sustain apprenticeship training dwindled. State vocational training did

not fill the gap and non-union training systems lacked stability. As competition increased, apprentice employees were not released from work for training classes and the graduation rate among enrolled apprentices dropped from 95% prior to repeal to 15% after repeal of the statutes. Utah now faces a significant shortage of skilled workers. Arizona has had a similar experience.

Proponents of repeal often claim that prevailing wage laws are detrimental to minority groups attempting to enter the construction trades. In fact, minority access to construction training in repeal states dropped 22%. In addition, the ratio of African-American unemployment to white unemployment did not decrease as supporters of repeal had predicted. In fact, after repeal, the percentage of African-Americans facing unemployment grew at a faster rate than whites in construction.

Conclusion

The evidence reviewed in this study indicates that the Davis-Bacon Act and Wisconsin's prevailing wage laws are beneficial to the State of Wisconsin and its citizens.

- 1) The elimination of prevailing wage laws would cost the state more in tax revenue than it would save in construction costs. Prevailing wage laws benefit the public budget.
- 2) Prevailing wage statutes make economic sense. Wage standards result in lower maintenance costs by ensuring construction quality and contractor stability, a decrease in cost overruns, a lower incidence of construction-related injuries and reduced workers' compensation costs. The prevailing wage structure supports a strong system of apprenticeship training in the construction trades which provides access to high-skill work for young people and minorities and ensures the availability of skilled labor to the state.
- 3) Prevailing wage laws ensure that the competitive bidding process is not used to undermine community wage levels and living standards.

PREVAILING WAGE STATUTES: IMPACT ON THE STATE ECONOMY

Maintaining Local Wage Levels

Prevailing wage laws were enacted to maintain community wage standards, promote economic stability and protect taxpayers from substandard labor on state and federal projects. The Congressional Budget Office (CBO) estimates that the Davis-Bacon Act regulates minimum wages for 19 to 24% of all construction in the United States (Thieblot 1986). Allowing for state statutes, as much as 30% of all construction is subject to prevailing wage statutes. Prevailing wage laws ensure that construction employees are paid the same wages on government and private projects. This is done by requiring that contractors on publicly-funded projects pay the locally prevailing wage, the typical wage paid for a building trades occupation in an area. This does not ensure high wages, since wages vary greatly by trade and location. Laws do not require that contractors pay union wages. Wisconsin sets prevailing wages at the modal (or most common) wage in a given area in private projects. Work by Goldfarb and Morrall, Bourdin and Levitt, and Allen indicate that the prevailing wages set by the U.S. Department of Labor are, at most, slightly above the average construction wage. Likewise, these authors find that the Department of Labor does not use union rates in areas where such rates are inappropriate. Nationwide, real or inflation-adjusted, earnings in the construction industry have been declining in recent years. Allen (1994) estimates that real earnings in the industry declined 17% between 1980 and 1992. Repeal of prevailing wage laws exacerbates this trend.

Impact of Repeal on Employees

What happens when prevailing wage laws are repealed? In the nine states that repealed their prevailing wage laws during the 1980s (Alabama, Arizona, Colorado, Florida, Idaho, Kansas, Louisiana, New Hampshire, and Utah) actual construction wages fell 7.5% after repeal.¹

One recent study evaluated the extent to which this decline in wages was the result of the repeal of prevailing wage laws, as opposed to other factors in the 1980's. Controlling for the general downward trend in real construction earnings, variations in state unemployment rates and regional differences in wages, repeal cost construction workers a 4.9% reduction in wages, or \$1,483 per person per year. (Philips et al. 1995).² The effects of state repeals of prevailing wage laws are not isolated to union workers or publicly-financed construction. All construction workers were hurt -- union and non-union, workers on private projects, as well as workers on government projects.

In Utah, which repealed its statute in 1981, wages declined and skilled workers left the state or sought employment in other industries. Various researchers have found that construction wages fell markedly throughout the state following repeal (Azari-Rad et al. 1994; Philips et al. 1995). Low wages have caused experienced workers to leave the industry and younger workers to leave when they form families. The subsequent decline in the availability of skilled workers has forced employers to carry larger permanent crews, increasing their labor costs (Azari-Rad 1994). Arizona, which also repealed a state prevailing wage law in the 1980s, has similar problems in its construction labor market. The *Wall Street Journal* reports that, even in boom periods, wages and benefits for private residential construction are so low that contractors are unable to retain skilled

workers (Tomsho 1994).

What would happen in Wisconsin if the state prevailing wage law were repealed? Proponents of repeal agree that wages would fall sharply (*Wisconsin State Journal* 1/13/95) but they have produced inflated estimates of the likely decrease.³ The best estimate -- from the study of what happened in the nine repeal states -- is that annual earnings would fall between \$1,483 and \$2016 on average for the approximately 100,000 construction workers in Wisconsin. (Construction employment varies seasonally from 85,000 to 115,000 workers). This would generate a first-order loss of employee income of between \$148.3 and \$201.6 million dollars. (By first-order, we mean the loss estimates ignore further economic effects - that of reduced income to other state residents generated from the drop in spending on the part of construction workers, and also increased income from an expected slight increase in construction employment). Higher figures represent the actual experience in the states that repealed prevailing wage laws; lower estimates are from the Philips regression analysis. *Considering likely employment effects, Wisconsin would lose \$137 million dollars in construction income from the repeal of the state's prevailing wage law.*⁴ Wisconsin construction workers and their families, whether or not they work on public projects, would lose from the repeal of state prevailing wage laws.

The impact of repealing the federal prevailing wage law, the Davis-Bacon Act, is less certain. Since federal construction volume is about 1/3 of state construction volume, repeal of the federal statute would have an impact on construction earnings at least one-third as large as the state statute.⁵ Wisconsin construction workers could potentially lose an additional \$494 - \$672 per year from repeal of the federal prevailing wage law, for an additional loss of about \$45.7 million in construction income. If both statutes are repealed at the same time, Wisconsin residents would have \$182.7 million less in income to spend.

Income is not the only thing that would be lost; job safety would also suffer. In Utah, serious occupational injuries in plumbing and pipefitting increased by 15% following repeal (Philips et al. 1995). Prior to repeal, these trades suffered 13.54 injuries per 1,000 workers; after repeal, with an influx of untrained and inexperienced low-wage employees injuries jumped to 15.42 per thousand. Construction is a dangerous industry and repeal of prevailing wage statutes compounds the problem. Since construction accounts for approximately 30% of all workers' compensation costs, a 15% increase in workers' compensation costs in construction could be predicted to increase all such compensation costs by 4.5%. Reduced job safety is not only a tragedy for the workers killed or injured, but also has a negative fiscal impact on the community at large.

Impact on State of Wisconsin Revenues

States which have repealed prevailing wage laws have experienced substantially reduced tax revenues. Given the decrease in wages, construction workers buy fewer goods and services, reducing sales taxes collected by the states. In addition, reduced wages result in lower taxable income, thus decreasing income tax revenues.

The State of Wisconsin will simply collect less in taxes if total income to construction workers falls. We can use prior experience to calculate the relationship between consumer income in the state and sales/excise tax revenue; it turns out that revenue is about 2.5% of consumer income.⁶ A loss of consumer income in the state of \$137 million will cause state sales/excise tax revenues to fall by \$3.4 million dollars. State sales tax revenues would fall by approximately one

third this amount if the federal prevailing wage law were to be repealed, and by about \$4.6 million if both laws were to be simultaneously repealed. State income tax revenues would fall even more sharply. Repeal of state law would generate losses of state income tax revenue of about \$9.5 million, or \$12.7 million if both laws were to be simultaneously eliminated.⁷

In short, the impact of repeal on the state budget is potentially substantial on the revenue side. If the state prevailing wage statute is repealed, the state stands to lose about \$12.9 million in sales and income tax revenues. These losses could easily exceed \$17.2 million if both laws are simultaneously repealed.

Because revenues fall when prevailing wage laws are repealed, arguments that the elimination of prevailing wage regulations will save taxpayers money are typically overstated (Shenan 1985). Philips estimates that repeal of the federal prevailing wage statute would actually cause the federal deficit to soar by nearly \$1 billion, since the savings on construction expenditures would be dwarfed by reductions in federal tax revenues. This is what happened in several states which experimented with repeal in the 1980s. Philips and his colleagues report that when revenue as well as expenditure effects are considered, in Utah decreased tax revenues exceeded savings on construction costs in five out of the seven years since repeal.

Moreover, repeal of prevailing wage laws raises costs to taxpayers in other ways beyond the simple loss of state tax revenue. Use of low-wage labor on construction projects also imposes costs for medical care and other services needed by employees without benefits. States without prevailing wage laws experience escalated demands on public services, as low-wage workers lacking health care coverage and other benefits increasingly depend on publicly provided services. Research by Dr. Marshall Barry and Joy Greyer (1990) finds that, while 15.5% of the nation's work force is not covered by health insurance, 27.7% of the construction labor force lacks this benefit. Such employees seek health care in public clinics, imposing a cost on all other citizens and businesses.

A study by the Institute of Industrial Relations at the University of California Berkeley demonstrates the potential costs to the public of using low-wage labor without health insurance in construction. In one private-sector construction project, only 53% of the labor involved had health insurance. The costs to the State of California of providing health insurance to the 408 employees without coverage, and their dependents, was estimated to be about \$1 million (Davidson 1989).

Maintaining Quality Standards on Public Construction

Prevailing wage statutes help maintain standards in the construction industry. With prevailing wage standards, contractors have every incentive to use fully skilled journeymen and well supervised apprentices. These workers know how to do their jobs correctly and efficiently. Such workers are more effective than supervisors or government inspectors in ensuring that work is done properly.

Evidence of the gains in using appropriately trained employees paid prevailing wages can be found in the *HUD Audit Report on Monitoring and Enforcing Labor Standards*. The Inspector General of HUD has written:

"Competitive bidding frequently results in use of less skilled workers paid below prevailing wage rates and shortcut construction methods leading to poor quality work... Direct correlation between labor violations and poor quality construction on 17 projects are shown in Appendix 3. On these 17

projects, we found violations and construction deficiencies in the same construction trades.

Poor workmanship quality, in our opinion, results from the use of inexperienced or unskilled workers and shortcut construction methods. Roofing shortcuts result in leaks and costly roof and ceiling repairs. While shortcuts in painting may not be as serious, it does require future maintenance expense by requiring repainting sooner than anticipated. Electrical shortcut deficiencies are not as readily detected but may lead to serious problems such as fires and shocks... Poor quality work led to excessive maintenance costs and increased risk of defaults and foreclosures... this systematic cheating costs the public treasury hundreds of millions of dollars, reducing workers' earnings, and driving the honest contractor out of business or underground.² (Report p. 13).

Repealing prevailing wage laws also threatens to increase the long-run costs of maintaining public construction. Low-ball bidding, high rates of business failure in the construction industry, lower wages, higher worker turnover, inexperienced workers and/or lower-quality workmanship do not produce the high-quality construction which is less costly to maintain in the long-run.

Supporting Comprehensive Employee Training

Prevailing wage statutes provide incentives to maintain an effective apprenticeship training system in construction; these apprenticeship programs guarantee that construction employees have the needed skills and technical capacity to earn family supporting wages.

What happens to apprenticeship programs when prevailing wage statutes are repealed? Azari-Rad and his colleagues found that with repeal of the Utah statute, state apprenticeship programs collapsed. After repeal the incentive to support apprenticeship programs was greatly weakened. In repeal states, training rates dropped 40% (Philips et al. 1995). In Utah, although employees registered in programs, employers did not allow these employees time to attend classes. Graduation rates plunged from 95 to 15%, and, partially because of this, Utah now faces a shortage of adequately trained employees in the construction trades (Azari-Rad et al. 1994).³

The shortage of skilled labor is also apparent in Arizona, another state without prevailing wage laws or strong apprenticeship systems. According to the *Wall Street Journal* (1/27/94), the labor shortage during the recent construction boom has disrupted construction as contractors have tried to meet their needs by stealing workers from one another. The current lack of skilled workers is so severe that even the president of the anti-prevailing wage Association of Building Contractors, Dan Bennett, admits that the supply of skilled employees is no longer adequate to meet the needs of the industry.

"We can always find enough people to slam together some forms and do the grunt work. It's the skills where we are going to have a problem and already do."

-Dan Bennett, WSJ, 1/27/94

The Wisconsin prevailing wage law is written to encourage apprenticeship programs by exempting participants in registered apprenticeship programs from prevailing wage standards. This exception recognizes that trainees are less productive than journeymen, that the training process is expensive and that, as employees move between employers over the course of their careers,

employers may not be able to recapture their training costs. Contractors who participate in apprenticeship systems gain the benefit of reduced wages and benefits. The employee and community gain the benefits of new workers whose increased productivity commands a living wage.

Prevailing wage laws also encourage training by eliminating low bids based on low wages. Contractors who wish to remain competitive, who wish to be the low bidder, can only do so by increasing productivity and efficiency. Successful contractors must continually improve their methods, engage in ongoing training of employees, and invest in new technologies. This does more over the long-term to improve efficiency, reduce public costs, and maintain living standards than cost reduction efforts based on cutting wages.

OPPOSITION TO PREVAILING WAGE STATUTES

Do Prevailing Wage Laws Increase the Costs of Government Construction?

Opponents of prevailing wage laws argue that these laws increase the cost of public projects. Their arguments typically cite estimates which indicate that Davis-Bacon wage standards increase the cost of federal construction. The Associated Builders and Contractors (ABC) of Wisconsin, the force behind efforts to repeal the Wisconsin statutes, has produced figures which claim that raising the threshold for coverage to \$100,000 and altering the method of determining the prevailing wage would reduce the public's cost of construction by \$23.3 million (ABC, 1993).

Such figures overestimate the savings realized by repeal. In fact, labor costs are only about one-quarter of total costs on public construction projects (Philips et al. 1995). If labor costs fall 4.9% following repeal then total costs fall only by 1.2% (assuming similarly productive labor, which is unlikely, and no increase in maintenance or other costs, which is equally unlikely). At most, direct public construction costs would only fall slightly.⁹ Moreover, this assumes that wage savings are automatically passed on in cost savings -- an assumption that is probably not warranted. This assumption has been criticized widely (Dunlop, Bourdin and Leavitt) and researchers have produced evidence that the use of low-wage labor in construction does not generate corresponding savings because low-wage workers are typically less skilled and require more supervision (Mandelstamm 1965; Belman 1992; Allen 1994; IUOE 1991).¹⁰ At the federal level, the Congressional Budget Office has recognized this fact:

"Higher wages do not necessarily increase costs, however. If these differences in wages were offset by hiring more skilled and productive workers, no additional construction costs would result." (Reischauer 1993).

The U. S. Department of Housing and Urban Development found:

"In order to assess how great an effect high wages have on project costs, [HUD] examined the Davis-Bacon wage rates applicable to each project and compared wage rates with dwelling construction costs... A comparison of average wage rates with average construction costs shows no

correlation between high wages and high construction costs."

-Evaluation of the High Cost of Indiana Housing, HUD (1979), pp, 23-7.

Moreover, use of poor quality labor likely increases maintenance costs. Such costs, which the inspector general of HUD estimates in the hundreds of millions of dollars, would more than offset any initial construction savings from the use of low-wage labor.

In Utah, the size of cost overruns on state road construction has tripled in the ten-year period following repeal of the statutes (compared to the period from 1971 to 1981). The shift to low-skilled labor and lowered productivity led to expensive change orders and added cost overruns that increased substantially the cost of construction.

Finally, most studies of the cost of Davis-Bacon assume that all wage savings are passed on to the public body contracting for the work. This assumption is inaccurate, as much of the savings remain with the contractor. In a comparison of high and low bids on specific public construction projects in Arizona, Deerman and Martin found that although the low bid saved between \$271,000 and \$350,000 on wages and benefits, only \$100,000 was passed on to the contracting agency. The balance, \$171,000 to \$250,000, went to increased profit for contractors and was absorbed by reduced worker efficiency. The public realized only 25% to 35% of any cost savings associated with paying less than the prevailing wage. In summary, the minimal savings obtained through repeal of prevailing wage projects are further decreased by hidden costs, including increased maintenance and change orders.

What then is a reasonable estimate of the degree to which elimination of prevailing wage statutes might reduce construction costs? A 4.9% reduction in wages constitutes the sole source of savings. Since wages constitute only 25% of total construction costs, the first level of construction savings is actually 1.2%. It is estimated that 50% of this amount is offset by lower productivity, higher profits to the contractor, and higher maintenance and supervision costs. Thus the repeal of prevailing wage laws reduces construction costs by 0.6% or less than two-thirds of one percent.

The State of Wisconsin spends somewhat less than \$750 million on construction each year. The figures indicate that state construction costs would be lowered by at most \$4.5 million by the repeal of the state's prevailing wage statute and by \$6.0 million by the repeal of both. These savings to state taxpayers are overshadowed by the loss of revenues resulting from the repeal of the laws (\$12.9 million for one law or \$17.2 million for both laws). *Clearly, repeal of prevailing wage statutes would not benefit the Wisconsin state budget.*

Do Prevailing Wage Laws Disadvantage Minorities?

The most recent line of attack on Davis-Bacon and other prevailing wage legislation has been that the laws were passed to exclude African-Americans from construction employment. It is also argued that by requiring payment of prevailing wages, the laws prevent minority employees from being hired into the construction trades.

These arguments originated with ABC (an association of nonunion contractors and construction users) to argue for repeal of prevailing wage laws and for the creation of a low-wage 'helper' category (BNA 1975). They have since been repeated by the CATO Institute (a conservative think tank) and received considerable play from editorial writers and opinion columnists. It is clear, however, that repetition, no matter how frequent, does not make an argument true.

The first allegation, that the Davis-Bacon Act was passed specifically to exclude African-Americans from the construction trade, is based on remarks of two congressmen, which are quoted out of context, and from creative interpretation of the remarks of other members of Congress. The CATO Institute publication makes reference to the remarks by Rep. Upshaw of Georgia in a 1927 debate over a prevailing wage bill which was not passed. CATO fails to note that the bill's sponsor (Rep. Bacon) immediately took issue with the racist remarks of Upshaw:

"I merely mention that fact because that was the fact in this particular case, but the same thing would be true if you should bring in a lot of Mexican laborers or if you brought in any nonunion laborers from any other State... In the case that I cite the contractor has also brought in skilled nonunion labor from the South to do this work, some of them Negroes and some of them white, but all of them are being paid very much less than the wage scale prevailing in New York."

-Hours of Labor and Wages on Public Works: Hearings on H.R. 17069 before the Committee on Labor, 69th Congress, 2d Session, 2 (February 18, 1927).

The second leg of the argument that Davis-Bacon is discriminatory is that by requiring payment of prevailing wages to all but apprentices, the law precludes the hiring of 'helpers' at wages suited to their skills. Since a higher percentage of minority workers fall in the low wage category, the lack of a lower wage 'helper' classification supposedly reduces their employment prospects in the industry.

Do these arguments have any basis in fact? Did minorities gain when states repealed prevailing wage laws? Contrary to these claims, *repeal of prevailing wage laws has typically hurt minorities*. The repeal of prevailing wage laws has caused a reduction in resources for construction training which has had a disproportionately negative impact on minorities. In the nine states which repealed their laws in the 1980's, minority participation in apprenticeship programs fell from 19.4% of all apprentices to 12.5% of all apprentices after repeal. In states that retained prevailing wage laws, minority participation in apprenticeship programs rose slightly in the same period. By 1993, minorities were somewhat over-represented in construction apprenticeship programs in the states with prevailing wage laws (at 103% of their population in the same states). In repeal states, minority participation dropped to reflect only 85% of the minority population, almost reaching the low level of states that never had the prevailing wages laws. Moreover, repeal did not increase minority employment in construction. The ratio of African-American to white unemployment in these states did not improve with repeal. In fact, African-American-white unemployment ratios increased after repeal.

In contrast, prevailing wage laws help minorities in several ways. First, the wage reporting requirements and anti-kickback regulations serve to protect members of minority groups from victimization by unscrupulous contractors. Equally important, the apprenticeship system in the building trades provides minority group members a means to achieve employment at the living wage. Nationally, minority participation in apprenticeship programs has risen to 22.5% on average (GAO 1992). In Wisconsin, minority enrollment in several construction apprenticeship programs exceeds their representation in the state's population - including the trades of plasterer, painter/decorator, iron worker, cement mason, and sprinkler fitter. Although progress is still needed in other trades, minority representation has been growing. Repeal of prevailing wage statutes, and

the subsequent decline in apprenticeships, will reduce rather than increase minority access to good jobs.

To conclude, there is no evidence that the position of minorities in the building trades will be improved either by repeal of the Davis Bacon Act or by repeal of the Wisconsin prevailing wage law. Neither the weakening of the prevailing wage laws through the exemption of more projects from regulatory standards nor the creation of a low-skill, low-wage helper category will increase minority participation in the trades. *Rather, prevailing wage laws aid disadvantaged groups by providing well-paid employment and a system of training which provides access to those jobs.*

CONCLUSION

The evidence reviewed in this study indicates that:

- The elimination of prevailing wage laws would cost the State of Wisconsin more in lost tax revenues than it would save in reduced construction costs.
- Prevailing wage laws are beneficial to the State of Wisconsin and its citizens. These laws ensure that government purchasing power is not used to undermine community wages and living standards.
- Prevailing wage standards are economically productive. Wage standards have minimal impact on public construction costs, while repeal of these laws in nine states has generated higher maintenance costs, consistent cost overruns, increased numbers of work related injuries and a subsequent rise in both workers' compensation costs and publicly financed health services.
- Prevailing wage statutes support the system of apprenticeship training and provide family supporting jobs to minority groups which have suffered from discrimination.

In summary, the state prevailing wage laws and federal Davis-Bacon Act together create a system of employment equity that is in the interest of not only construction workers, but the citizens and the state government of Wisconsin.

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NOTES

1. Georgia, Iowa, Mississippi, North Carolina, North Dakota, South Carolina, South Dakota, Vermont, and Virginia have never had prevailing wage laws.
2. Using 1991 data, Phillips reports a wage reduction of \$1,350. Adjusting this estimate for inflation produces our estimate, in 1994 dollars, of \$1,483.
3. In an editorial, 1/13/95, the *Wisconsin State Journal* reports that laborers hired under the prevailing wage statute in Wisconsin are paid \$15.12 per hour in wages and \$3.90 per hour in benefits. It is also reported that PAS, a compensation research firm, found laborers, of unspecified skills, could be hired for \$8.68 per hour. Based on these figures, the annual earnings of a construction laborer protected by prevailing wage laws would be \$26,460 in wages and an additional \$6,825 in benefits and without the laws, they would earn \$15,190 and would have no benefits. (This assumes they work an average of 1750 hours per year). In repeal states, the actual drop in earnings was 7.5%, a fraction of this "estimate."
4. Employment would rise slightly with lower wages, since lower wages make profitable the employment of less productive workers. Using conventional estimates of the elasticity of labor demand ($e = .1$), a 4.9% wage reduction would generate 490 additional construction jobs. Assuming these new, lower productivity employees earn \$23,000 a year on average, an additional \$11.3 million in construction would be generated in the state. This would slightly cushion the predicted \$148.3 million income loss.
5. Table A3 in the Spring 1995 *Construction Review* breaks down the value of new public construction in the U.S. by federal vs. state and local. From 1990 to 1994, there was a total of \$67.776 billion in new federal construction and \$523.477 billion in new state and local construction. As state expenditures make up 38.8 percent of state and local construction expenditures (see Table D6 above for fiscal 1991 and 1992 expenditures for 1991 and 1992). Using this figure, state construction totaled approximately \$203.28 billion between 1990 and 1994 and federal construction was 33.34% of this amount over the period. These figures reflect expenditures, rather than employment, and there may be some overlap between federal and state funded projects.
6. This estimate is based on sales/excise tax receipts and personal income figures for all persons in the state, contained in the State of Wisconsin's '93-'94 Blue Book for 1991 and fiscal 1991-92.
7. A state marginal tax rate of 6.93% was used in these calculations; this marginal tax rate applies to married-joint returns with taxable income over \$20,000 per year, or individuals with more than \$15,000 per year (Legislative Fiscal Bureau, February 24, 1992).
8. The inadequacy of non-union apprenticeship programs has compelled non-union contractors to depend on the graduates of union apprenticeship programs to provide the skills needed on their projects. While this has reduced these contractors costs, the decline of union programs has left the

industry with too few adequately trained employees.

9. This figure is comparable to estimates by the Congressional Budget Office that repeal would save 1.5% in construction costs, plus a savings in paperwork of 0.2% (Reischauer 1993).

10. In a series of sophisticated studies Professor Steve Allen of North Carolina State University, has found that, although unionized construction employees earn 40% more than their non-union counterparts, construction done with union workers is only slightly more expensive. The better trained union employees are between 29% and 51% more productive than non-union workers; the increased productivity counterbalances their higher wages. The productivity advantage is particularly important on complex projects, where high wages are associated with reduced final costs. A study of highway construction also finds that high wages are associated with reduced construction costs. Although union rates were, on average, 20% higher than non-union rates, projects using union employees used 44% fewer employee-hours, and had 10% lower costs, per mile of highway construction (IUOE 1991), pp.23-27.

RESOLUTION NO. 95-526

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF SEP 05 1995

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SACRAMENTO, CALIFORNIA, RELATING TO MAINTAINING DAVIS-BACON PREVAILING WAGE STANDARD IN CALIFORNIA

WHEREAS, the construction industry plays a vital and important part in the economic well-being of the City of Sacramento by providing jobs and a steady stream of revenue into the community; and

WHEREAS, a dynamic and growing construction industry is dependent on a workforce of highly trained and skilled construction workers; and

WHEREAS, the wages determined to prevail in local communities are required to be paid to construction workers on state and local agency public works projects and which are responsible for maintaining a stable and skilled work force, providing a living wage to workers and their families providing health and retirement benefits to workers and their families, and helping to support apprenticeship training programs; and

WHEREAS, the University of Utah recently completed an in-depth study of the economic impacts resulting from the repeal of prevailing wage legislation in nine states and which conclusively shows that the wages of all construction workers, union and non-union alike, were

FOR CITY CLERK USE ONLY

RESOLUTION NO.: 95-526

significantly reduced, that the states lost substantial income and sales tax revenues which far exceeded any savings realized on the cost of public works projects, that construction workplace injuries skyrocketed because of the use of unskilled workers, that apprenticeship training was reduced by almost half, and that construction project experienced an increased number of cost overruns and change orders; and

WHEREAS, all available evidence conclusively proves that California's prevailing wage requirements do not inflate the cost of public works, but to the contrary, help maintain a highly trained and stable work force who reside in the communities where they are employed;

NOW, THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO, CALIFORNIA, to recognize the importance of prevailing wage laws, reaffirm its unwavering commitment to uphold prevailing wage requirements on City public works projects; and declare its desire that these laws be continued without change; and

BE IT FURTHER RESOLVED, that the City Clerk transmit a copy of this resolution to the Governor, the Director of the Department of Industrial Relations, and appropriate members of the State Legislature.

JOE SERNA, JR.

Mayor

ATTEST:

VALERIE BURROWES

City Clerk

(SEAL)

FOR CITY CLERK USE ONLY

RESOLUTION NO.:

95-520

DATE ADOPTED:

SEP 05 1995

Davis-Bacon law ensures quality in construction

We rebuilt the world's busiest freeway in just 66 days. Part of our success came from contracting with private firms - to speed rebuilding and to keep down the cost.

- Gov. Wilson, 1995 State of the State Address

Government workers - hand-in-hand with private business - rebuilt Southern California's fractured freeways in record time and under budget.

- President Clinton, 1995 State of the Union Address

C.C. Myers is president of C.C. Myers Inc., a construction company in Rancho Cordova.

By C.C. Myers

IT MADE me proud when the governor of California and the president of the United States publicly recognized the tremendous success we had in rebuilding the Santa Monica Freeway after the Northridge earthquake. We just repeated that performance rebuilding in 21 days the twin bridges wiped out on I-5 after the recent floods.

Like air and water, the highways, dams, bridges, schools, sewage systems and other infrastructure elements that make society run are easy to take for granted - until they're missing. When commerce stops, paychecks stop, families go hungry.

Those of us in the construction industry know what it takes to build a first-class infrastructure: government commitment, quality contractors and a skilled, hard-working labor force. Each member of my crew, from top management to the newest apprentice, has a job to do in a tough, dirty and dangerous occupation. These are skilled, rugged individuals who take great pride in their work. Many of them have devoted more than 5,000 hours to learning their trade. They put in a full day's work and they get a decent day's pay.

At the end of the day they go home tired, but proud. They've earned enough to take care of their families, including good medical and dental benefits. Using their hands and their heads, they've built some of the most sophisticated and durable structures in the world. Every construction worker I've ever known puts with a special pride as he or she tells the kids, "I built that."

A MID, safe infrastructure has served business and the public well. Government construction, around 25 percent of all construction, has also served the construction industry well. High quality construction standards are enforced. Extensive training of apprentices, including growing numbers of minorities and females, is required. Area wage standards, known as "prevailing wages," are mandatory. In this way, bids are won through efficiency and competence, not wage-cutting. Federal law, the Davis-Bacon Act, and state laws, called "Little Davis-Bacon" laws, have kept careful control of a dog-eat-dog industry.

That's why I'm distressed to see The Bee expressing support for those politicians who want to change all this ("Prevailing wage reform," April 17). They want to repeal these laws or tinker with the wage protections. I say to them, lower wages don't mean lower costs. Lower wages mean shoddy work, more accidents, more injuries, more repairs.

What can and should be reformed are the burdensome regulations and the enormous paper work required on government projects. Rather than cutting wages, we should be looking for ways to put more people to work. One "endangered species," such as the fairy shrimp, can stop an entire development project and the thousands of jobs that go with it. It's time to take a hard look at laws such as the Endangered Species Act. It's time for government to stand up for hard-working, productive Americans.

I HAVEN'T built my company and my reputation using low-wage, unskilled workers. We come in ahead of schedule and under-budget because we use the best skilled workers and run the job with a talented management team. That kind of operation doesn't come cheap, but investing in skills is what brings the overall cost of construction down.

I witness close up every day the core values that have made America great: hard work and the dignity that comes with it; individual responsibility combined with teamwork; and most of all, a fierce love of family and country. These are the people who work for me. They work hard, they're treated right, and they get the job done. Why would anyone want to screw that up?



CAL SMACNA

March 6, 1996

California
Association
Sheet Metal
And
Air Conditioning
Contractors
National
Association

Honorable Mayor and Councilmembers
Lodi City Council
212 West Pine Street
P.O. Box 3006
Lodi, CA 95241-1910

Subject: Charter City and Prevailing Wage.

Cyndi Marshall
General Manager

Dear Mayor Warner and Councilmembers:

1995-96 Officers

Kurt Smith
President

Daren Weckerly
President-Elect

Bob Bramlett
Treasurer

Ken Hammill, Jr.
Secretary

John Coutts
Immediate Past President

While the decision to become a "charter" rather a "general law" city should be based on many factors, the argument that to do so because Lodi could then remove themselves from state prevailing wage statutes and hence save tax dollars should not be the basis for this change. There is no demonstrated net economic benefit to the public as a result of repealing prevailing wage.

The first prevailing wage law was enacted more than 100 years ago by the State of Kansas. This philosophy was that the large economic force of government should not be used to force down construction wages in the local community. This principle was being debated during a time in our republic when society and governments were changing oppressive child labor laws, requiring mandatory schooling for children and reducing normal work days to eight hours. Today we take all these for granted. These concepts are part and parcel of enlightened societies and are as valid now as they were last century.

The State Department of Industrial Relations (DIR), through the regulatory process, is proposing to modify the manner in which the wage scale is determined. In their notice of proposed rule making DIR concedes that there is no consensus on the effect of prevailing wage laws. California Legislative Analyst Elizabeth G. Hill is quoted; "Unfortunately, reliable data for measuring the effects of these two factors (Labor Productivity and Nonlabor Construction Costs) are simply not available. It is for this reason that economists have been unable to develop meaningful quantitative estimates of the effects of prevailing wage laws." (Page 2 of the DIR Notice of Proposed Rule Making, December 26, 1995, on amending the "modal rate")

The California State Senate Rules Committee has taken the unusual step of requesting that DIR delay the regulatory process in order for the Senate Office of Research conduct an independent study of the impact of the proposed changes. The Senate's reasoning is that there is no current study available on prevailing wage changes. See enclosure.



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Our mission is to provide legislative and regulatory advocacy and program services.
Our goal is to help unify the voice of our industry for the combined benefit of our companies,
our employees, our communities and our industry.*



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The University of Utah has conducted the most exhaustive study on the impact of repeal of prevailing wage, entitled Losing Ground: Lessons for the Repeal of Nine "Little Davis-Bacon Acts, February 1995. The repeal of prevailing wage in Utah caused a 5% decrease in construction wages. This alleged savings to the taxpayers of Utah was offset by an equivalent loss in property tax, income tax and sales tax revenues. The construction workers were unable to purchase goods and services at the same level as before. This does not bode well for retailers, automobile dealers or home builders. Utah also experienced a 15% increase in job related injuries. Since 80% of non union contractors do not provide health care coverage, this burden will then fall to public supported programs. Job overruns increased 300% after repeal. The resulting uncertainty of actual costs of construction will cause great discomfort to those responsible for city budgets. See enclosed study.

The Utah study found that within the nine states that repealed prevailing wage the average annual earnings fell by nearly \$1500 per construction worker. The average wage for a California construction worker is approximately \$ 28,000. Some have argued that the wage decrease will create more employment, but that is clearly is not true. Within these nine states, while wages fell by 5% employment rose by only 1.7%.

The threat of out of area or out of state contractors moving in temporarily to Lodi and taking business from local union contractors is real. This incursion will reduce the tax base and removes wages from the area. Local businesses of all types would be jeopardized. While the revenues will decline there will be an increase in demand for public services from these transient workers and their families.

Clint Meyers, founder of C. C. Meyers Construction in Rancho Cordova, stated that his company could not have completed the repairs on the Santa Monica Freeway as well as the bridges on Interstate 5, ahead of schedule and under budget, without being able to hire trained, experienced union workers. The men and women he employed are products of a system which rewards skilled workers who have been trained by employer funded apprenticeship programs. Once again, the Utah study discovered that repeal of prevailing wage caused the demise of the apprenticeship programs in their state.

Governor Pete Wilson, in his 1995 State of the State Address, is quoted; "We rebuilt the world's busiest freeway in just 66 days. Part of our success came from contracting with private firms - to speed rebuilding and to keep down the cost." According to a study by the Federal Highway Administration, from 1980 - 1993, there is no relationship between higher wages and higher costs. Higher wage states consistently build highways cheaper per mile than lower wage states because they require 40% fewer labor hours. These high wage states produced roadbed and bridges for 10.7% less cost even though they paid an average wage package 81% greater. There is a relationship between higher wage and higher productivity.



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National
Association

CAL SMACNA represents more than 600 members and signatory contractors statewide. We employ more than 25,000 men and women in California. The Sacramento and Northern San Joaquin Chapters of CAL SMACNA represent more than 50 members and signatory contractors employing more than 2,000 people. These employers sign union agreements by choice. They provide a livable wage and health and pension benefits to our employees so they and their families can be productive members of the community. Our employees are taxpayers and contributors to society rather than having to depend on government for assistance.

Sincerely,

Michael Monagan
Legislative Advocate

Cyndi Marshall
General Manager

1995-96 Officers

Kurt Smith
President

Daren Weckerly
President-Elect

Bob Bramlett
Treasurer

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enclosures



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California Legislature
Senate Rules Committee

BILL LOCKYER
Chairman

MEMBERS

WILLIAM A. CRAVEN
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RUBEN S. AYALA
ROBERT G. BEVERLY
NICHOLAS C. PETRIS

CLIFF BERG
EXECUTIVE OFFICER

February 26, 1996

Lloyd Aubrey, Director
Department of Industrial Relations
1121 L Street, Room 307
Sacramento, CA 95814

Dear Mr. Director:

In accordance with the provisions of Section 37.7 of the Joint Rules of the Legislature, the Senate Rules Committee has approved a request to study the potential economic impact of the Department's proposed regulations on prevailing wages. The purpose for this study is two-fold: First, that there has been no empirical analysis undertaken by the Department to determine the effect of the proposed regulations on California's economy and construction labor market conditions; and secondly, the need to determine whether these proposed regulations will detrimentally impact the State Budget by reducing tax revenues and shifting health care costs for construction workers and their families from private insurance coverage to Medi-Cal and county health programs.

For these critically important reasons, I am requesting that you extend the comment period for receiving information into the rule making record for the proposed regulations and refrain from adopting any final regulations until our study is completed. I envision the completion date for study to be no longer than two months.

If you have any questions or concerns, please feel free to contact Greg Schmidt, Executive Officer of the Senate, or myself.

Sincerely,

Bill Lockyer
BILL LOCKYER
Chair

cc: Director, San Francisco Office

Losing Ground: Lessons from the Repeal of Nine "Little Davis-Bacon" Acts

February 1995

**~~Garth Mangum, Peter Philips,~~
Norm Waitzman, and Anne Yeagle**

University of Utah



wages. The dilemma is that if the state pays the average wage, it will automatically undercut the most commonly found wage. Alternatively, if government pays the highest wage found, it will always be pulling the average wage up. When is the highest wage sufficiently common that it should be called the prevailing wage rate, even though it will never be the average wage?

In the federal law, this dilemma was resolved by a threshold rule. This rule stated that if the most commonly found wage rate, to the penny, accounted for more than 30 percent of all wages for an occupation in a local labor market, that was the prevailing wage even though it was not the average wage. On the other hand, if the most commonly found wage rate accounted for less than 30 percent of all wages for an occupation in a local area, the average wage rate prevailed.

In 1985, the Reagan administration revised the rule and raised the threshold to 50 percent. Today, Davis-Bacon wage rates are the average rate for an occupation in a local labor market except, in roughly one-third of the cases, where 50 percent of the wages in that area are precisely the same. If more than half of all workers in an occupation in an area make the same wage, that wage rate — even if it is above the average — is said to prevail. But two-thirds of the time the average wage prevails.

Modern opposition to prevailing wage laws is usually founded on one of two objections. Some people oppose the idea of the government agreeing in advance to pay the average wage rate for workers in specific occupations in a local area. This criticism is completely at odds with the original purpose of prevailing wage legislation, which was to prevent the government from hiring labor at below-standard rates. Other critics object to paying a prevailing wage that is greater than the average wage in the locality. The premise of this second objection has lost a great deal of its force in recent decades. As a result of the adoption of the 50 percent threshold, and the additional fact that unionization in the construction labor market has fallen from 70 percent to about 25 percent in the last three decades, there are far fewer cases in which the wages rates determined as prevailing are greater than the average rate.

The Financial Costs of State Repeals

Lower wages for all construction workers. Supporters of Utah's 1981 repeal of its prevailing wage law recognized that repeal would lower construction wages. They maintained, however, that the money saved on public works construction justified the government's indirectly lowering the wages and earnings of some of its citizens. And, indeed, construction earnings did fall. In Utah, construction workers, who through the 1950s, 1960s, and 1970s earned 120 to 130 percent of the average non-agricultural wage in the state, saw their wages fall steadily after repeal. By 1993, Utah construction workers were earning only 103 percent of the average annual earnings in Utah, even though Utah was then experiencing a massive construction boom, in which construction wages normally go up. This earnings decline affected all Utah construction workers — whether union or non-union, whether employed on publicly or privately financed projects.

Taking the nine repeal states as a whole, the average annual earnings of construction workers in these states fell from \$24,317 (in 1991 dollars) per year before the repeals to \$22,148 after the repeals. This is simple but compelling evidence that repeals of state prevailing wage laws have lowered construction wages.

A more complex analysis confirms this general observation. Using multiple linear regression analysis, we isolated the earnings effects of the state repeals while controlling for the business

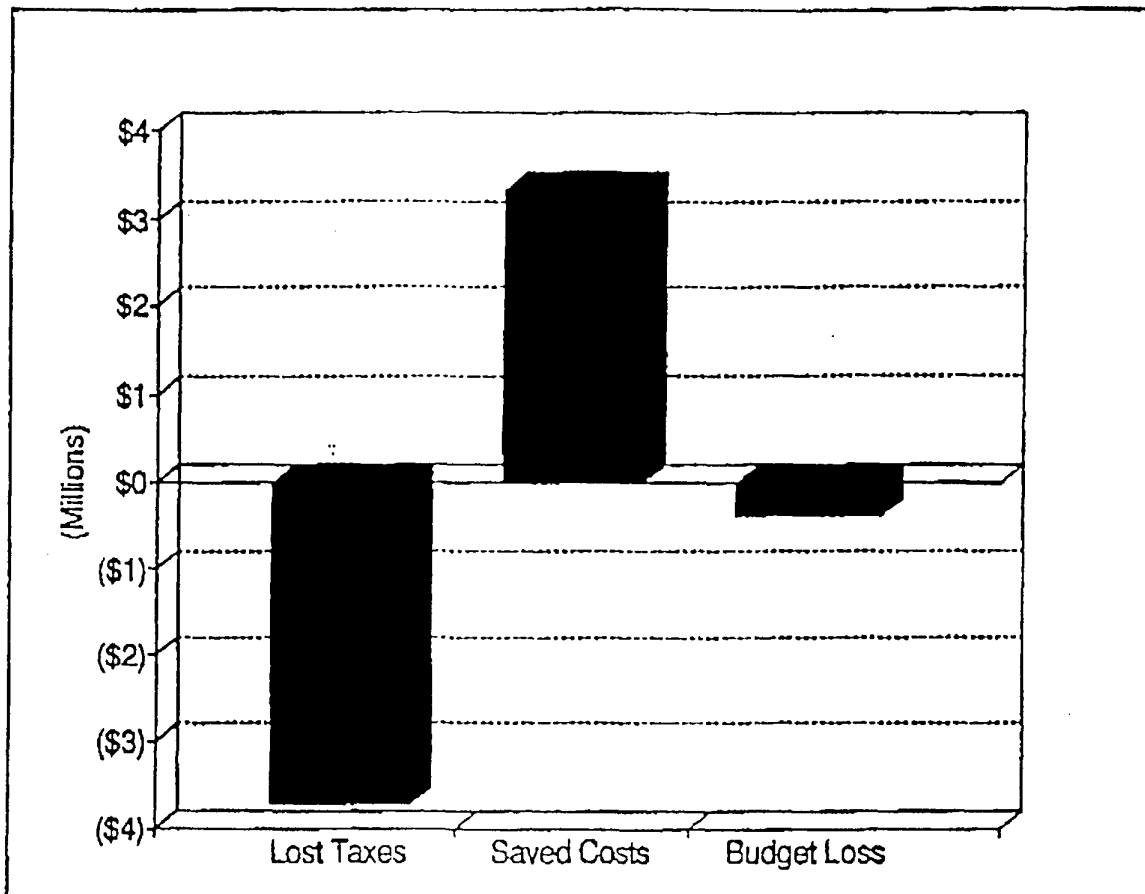


Figure 5.1 Average annual income-tax revenue loss and construction cost savings and net effect of repeal for Utah, 1987 to 1993, in 1994 dollars

Source: Table 2.6.

On average, the repeal of Utah's prevailing wage law has cost the state budget \$400,000 per year from 1987 to 1993. This figure has been rising and reached \$1 million in 1993. Should the federal prevailing wage law be repealed, the gap between lost federal tax dollars and construction cost savings will be greater. This is partly because a Davis-Bacon repeal would affect more construction and more workers, but also because the federal government income tax rate is higher than Utah's. The higher the income tax rate are taxed, the greater the taxes if incomes fall.

almost 20 percent of all construction apprentices. After repeal, minority participation fell to 12.5 percent of all construction apprentices. Thus, after these repeals, minorities became significantly under-represented in construction apprenticeships.

One reason for this decline is that union apprenticeship programs usually enrolled dozens of apprentices. Non-union apprenticeship programs tied to single employers tended to be smaller, often involving no more than one, two, or three apprentices. Affirmative action regulations do not cover apprenticeship programs of fewer than five apprentices. So the union programs had to fill out affirmative action plans and follow affirmative action guidelines, while the smaller programs did not.

When the repeals drove the union programs into decline, minority workers lost the most. For instance, the percentage of minority apprentices in construction, which reflected the minority proportion in each state's state population before repeal, declined in the repeal states (fig. 5.2). Minority construction workers may still enter the industry but they are less likely to receive full formal training in the absence of prevailing wage legislation. Although it has been suggested that repeal of Davis-Bacon would lower black unemployment relative to white unemployment by opening up jobs for less-skilled black labor,¹² the data do not support such a claim (see chapter 3, figs. 3.3 and 3.4).

Thus, repeal means that minority workers will begin construction work in unskilled jobs and get their training, if at all, on a catch-as-catch-can basis. Furthermore, minorities will enter an industry that is less able to provide a secure blue-collar, middle-class income. Repealing prevailing wage laws has therefore cut off an important road for minorities into the middle class. Without skills training, workers are less productive; without safety training, they are at greater risk of injury in an already dangerous profession.

Increased work-related injury rates. All construction workers in the nine repeal states have been put at increased physical risk by the repeal of the several state prevailing wage laws. Injury rates in construction in the nine repeal states have risen by 15 percent after repeal, even controlling for other factors such as unemployment, trends in construction safety, and differences in work safety experiences by region. This finding is consistent with other research. The Department of Labor found that the rate of injuries "decreases substantially as length of service increases."¹³

If the experience in these states can be extended to the nation, a repeal of Davis-Bacon would result in 76,000 additional construction workplace injuries annually. About 30,000 of these injuries would be serious, requiring time off to recover. More than 675,000 work days would be lost. These new injuries would occur because workers would be less well-trained and because they would have fewer on-the-job protections against contractors who are in a hurry.

Workers, of course, suffer directly from these occupational injuries — in their physical well-being and in their wallets. Increased injury rates also lead to increased costs for contractors, who must pay higher worker's compensation premiums. And, as consumers of construction services, local, state, and federal governments pay a share of those higher worker's compensation premiums.

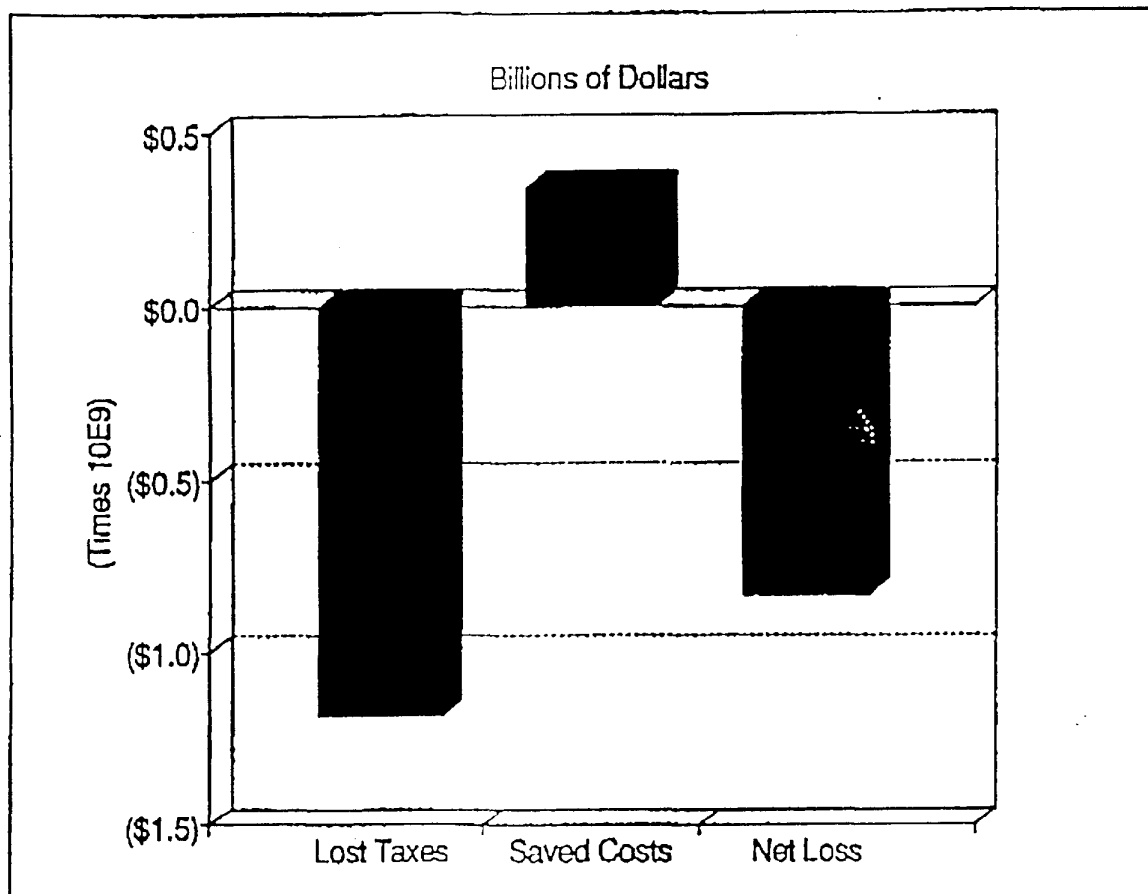


Figure 5.3 Estimated effect of a repeal of the Davis-Bacon Act on income-tax revenues, construction costs and total budget

Source: Table 2.7.

The Congressional Budget Office estimates that the federal government would save a total of 1.7 percent in construction costs from a repeal of Davis-Bacon. This chart uses the more conservative cost savings estimate of 3 percent. At a 3 percent construction cost savings, with a marginal income tax rate of 20 percent and federal construction expenditures at their 1991 level (in 1994 dollars), a repeal of Davis-Bacon would cost the federal government \$1.2 billion in income tax revenues. The federal government would save \$346 million in construction costs and the federal budget would lose, on net, \$838 million.

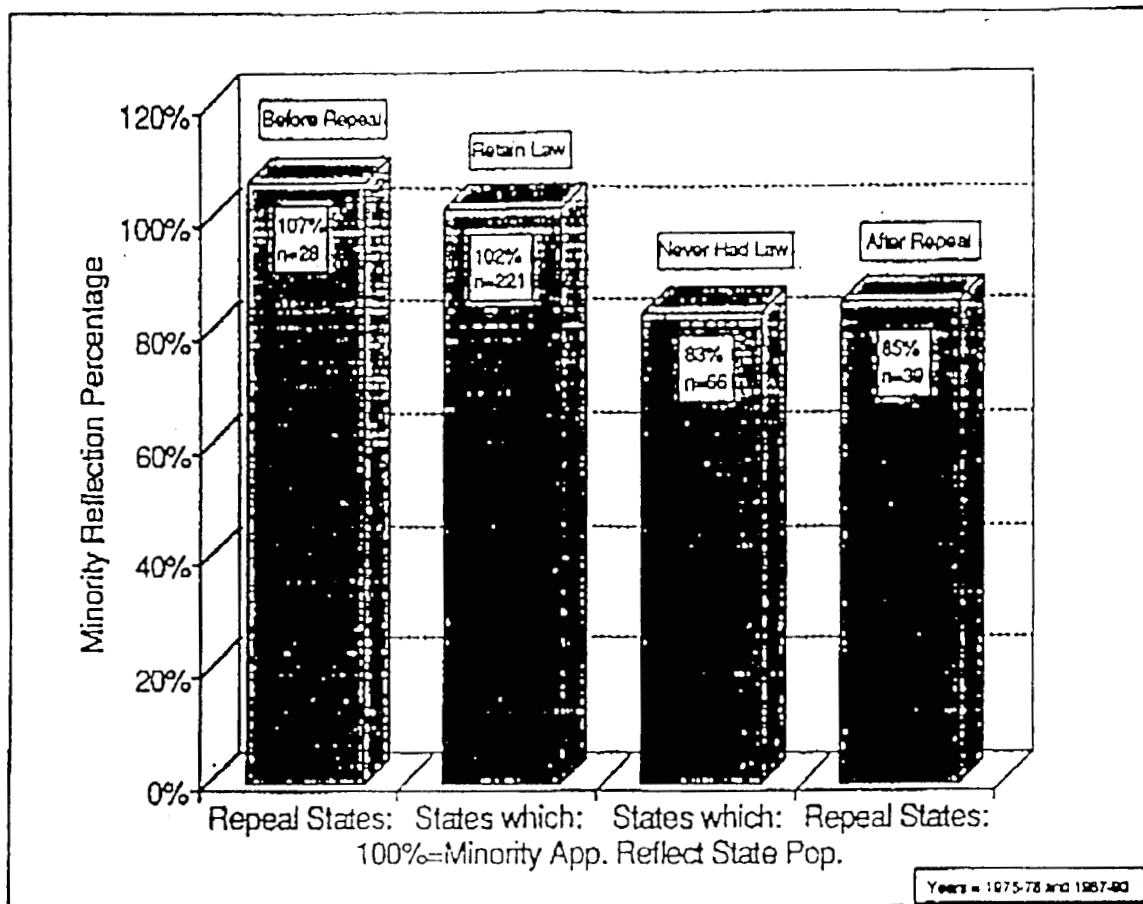


Figure 3.10 Ratio of the percentage of minorities in construction as a ratio of the percentage of minorities in the state population, by state groups

Source: U.S. Department of Labor, BAT and BLS.

A ratio of 100% would show that the proportion of minority apprenticeships in each group of states reflects the minority as part of the state population. Minority participation in construction apprenticeships mirrored the state population in repeal states prior to repeal and in states that retained their prevailing wage laws throughout 1990. After the repeals, however, minority participation in apprenticeships in repeal states fell to levels that seriously under-represented minorities and resembled the under-representation characteristic of states that never had prevailing wage laws. Non-union apprenticeship programs tend to be small and do not fall within the oversight of affirmative action guidelines — which may be why the repeals have led to an under-representation of minorities in apprenticeships.

Unions lower training turnover by providing a way for employers and journeymen to rationally invest in the human capital of apprentices. Collectively bargained agreements create wage incentives for apprentices to stay with training programs, and also cause their employers to promote the workers' passage to journeyman status. Unions also encourage the career attachment of trained journeymen by providing relatively high wages and health and retirement insurance, which is increasingly attractive to workers as they age. By creating career jobs in a casual labor market, unions create the institutions needed to make human capital investment a rational market activity.

With the lowering of construction wages, young construction workers will limit the amount of human capital they invest in themselves. With a lower stake in construction skills and the disappearance of wages in the form of health and old-age insurance, it becomes more reasonable for many journeyman construction workers to abandon construction work entirely when they start families. This is an additional loss of built-up human capital.

The loss of a career. Contractors have attempted to minimize the effect of this increased skill volatility in the industry by encouraging attachment of workers to their firms. Still, despite initiatives such as profit-sharing, 401K plans, and health insurance to bind key workers to the firm, construction firm turnover remains high. It appears that the decline of unions has been associated with the decline of the career worker in construction, a diminution in incentives to invest in construction skills, and an increasing loss of accumulated human capital as apprentices and journeymen leave the trades.

The loss of human capital and career jobs in this industry does not appear as a private cost on the ledgers of any single contractor. Nonetheless, the industry and society at large pay a price for the loss of middle-class occupations in construction. Not only is quality in the industry at risk when human capital stocks are allowed to dwindle, but the quality of our society is imperiled when we dismantle the institutions that generate stable employment out of unstable working conditions.

* * *

The construction industry is turbulent. Caught in a perennial boom-bust cycle, characterized by fleeting relationships between small contractors and subcontractors, and driven by short-term strategies of free-riding on the training of others, the construction industry is a market failure waiting to happen. The turmoil in the construction labor market has traditionally been tempered by prevailing wage legislation and labor unions. Absent these institutions, it is unclear how—or whether—the market will regularly and carefully train workers, or assure safety and health on the job site, or provide training opportunities for minority workers, or offer the incomes needed to make construction an attractive career. Government purchases account for 20 percent of all construction in the United States. For the last six decades and more, the government has contributed to the stability in construction labor markets by requiring contractors to pay the wage rates that already prevail in a local areas. Today, voices are urging the government to use its purchasing powers to reduce construction costs at the expense of worker incomes. Such a strategy has a very real cost for workers, the industry, and the government. When nine states chose this path, the results were significantly lower construction wages, slightly higher construction employment, a tripling of cost overruns on public works, an across-the-board 15-percent increase

PH-3

P.O. BOX 1867
1717 S. STOCKTON ST.
LODI, CA 95240



RECEIVED
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STOCKTON (209) 463-2492
FAX (209) 333-0993

96 MAR -6 PM 1:30

RECEIVED
REYNOLDS W. FERRARI
CITY CLERK

March 4, 1996

Lodi City Council
Carnegie Forum
305 W Pine Street
Lodi CA: 95240

RE: Meeting March 6, 1996 re Charter City designation and the payment of state prevailing wage rates.

Gentlemen:

We are requesting that the attached copy of our letter to Governor Pete Wilson be read into the records at the above meeting.

We hope that all of the Lodi City Councilmembers will take the time to confer with the Councilmembers of the City of Galt, who have recently decided to decline a Charter City designation, and their reasons for doing so.

We are a Lodi Company, doing business with Lodi customers. We can continue to provide the quality service required by our customers due to the expertise of our skilled union personnel.

Again, should you decide to Charter the city's status, we suggest that you include in the Charter a requirement to pay prevailing wages in your proposal.

Sincerely,

Andrew Stephens
President

AMS/cld

Enclosure

P.O. BOX 1867
1717 S. STOCKTON ST.
LODI, CA 95240



LODI (209) 333-0136
STOCKTON (209) 463-2492
FAX (209) 333-0993

February 12, 1996

Governor Pete Wilson
State Capitol
Governor's Office
Sacramento CA 95814

Dear Governor Wilson:

My company is a small construction business that specializes in grading and paving in the Sacramento Valley. We have been in business for 16 years and have managed to survive the California recession by offering quality service to our customers and a safe and equitable work environment to our employees.

Originally, our company was non-union. After a few years doing work requiring the payment of Prevailing Wages, we felt it would benefit both the company and our employees to become a Union Shop.

We have found a substantial customer base with several school districts and small cities (such as Lodi and Galt) where we are able to compete with other small businesses and provide quality service to our customers, competing with established companies utilizing skilled, well-paid construction workers.

We are adding our voice to those of other small businesses who request your support by allowing the continuation of California's prevailing wage laws.

You got my vote in the last election. As a small businessman, at this critical time in the recovery of California, I hope I can now count on you to support the State's current prevailing wage policy.

Sincerely,

Andrew Stephens
President

AMS/cld

cc: Patrick Johnson, Senator 5th District
cc: Michael Machado, Representative, 17th District
cc: Department of Industrial Relations,
Division of Labor Statistics and Research



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FAX (209) 334-0930

Mayor Warner
CVO City Hall
221 W. Pine St.
Lodi, CA 95240

March 6, 1996

RECEIVED
CITY OF LODI
MAY 11 1996
5:06 PM

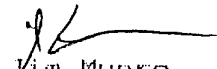
Dear Mayor Warner,

As a concerned employer, I am voicing my opinion in regards to changing Lodi to a charter city. If one of the reasons behind this is to save money on prevailing wage jobs, I feel the city should keep their economic thinking to city business and not to the private sector business. We have enough government involvement and regulation in private business now and we can not afford any more.

In my opinion, city council and staff should work on internal city economics. Perhaps using time more efficiently by all city employees, cost effectiveness in some in house services, and maybe hiring temps instead of paying expensive overtime during your busiest seasons.

By keeping a liveable wage for contractor employees, it insures us of a better quality of living, housing, education, and a more prosperous community. Better paid people tend to spend well and invest wisely and I feel that this is important for Lodi.

Sincerely,


Jim Munro
President

State Building and Construction Trades Council of California

ROBERT L. BALGENORTH
PRESIDENT

RICHARD ZAMPA
SECRETARY-TREASURER

297 N. Marengo Ave.
Suite 200
Pasadena, CA 91101
(818) 796-2022
FAX (818) 796-8736

Chartered by
**BUILDING AND CONSTRUCTION TRADES
DEPARTMENT
AFL - CIO**

921-11th Street
Suite 400
Sacramento, CA 95814
(916) 443-3302
FAX (916) 443-8204

March 6, 1996

Dear Council Member:

The State Building and Construction Trades Council of California represents over 250,000 construction workers in the state of California. Our members comprise a construction workforce which is the most efficient and well trained in the world. The union construction worker in California goes through years of intense classroom and low paying apprenticeship preparation. Our members make this sacrifice because when they graduate as journeymen they are able to get a good paying job with which they can support their families.

Both the State of California and the Federal Government have had "prevailing wage laws" since 1931. The laws were enacted to insure that skilled employees who work on public works projects in California will be paid at least the wages and benefits that "prevail" in their local communities, and that unscrupulous contractors will not have an incentive to import unskilled workers from other parts of the country who are willing to work for less than local workers.

Some local public officials erroneously believe that repealing prevailing wages will appreciably cut the costs of public projects. It is not uncommon for local officials to maintain that savings of 20-30% can be achieved on the total cost of a project if there are no prevailing wages. This is totally false. Total labor costs on public works projects in California only average 21%. Workers would have to work for free to achieve 20-30% savings. Any savings would be in the range of 1-2%, and these savings would be more than offset by the loss of income and sales tax revenue from workers and the loss of revenues to local business.

First, construction workers in your area contribute more money to your community than you may be aware. Every union construction worker and their families are covered with private health insurance. There is currently no mechanism in place to pay for their health care if you take away their benefits. Union health insurance plans pay out over 1.28 billion dollars a year to California health care providers. This includes \$35 million to San Joaquin County alone. Without the protection of prevailing wage requirements, this insurance coverage will disappear.

Second, apprenticeship programs in your area will be severely limited. Union apprentice programs are the only programs turning out skilled graduates every year. Other apprentice programs exist on paper, but if you press the people responsible for these programs they cannot point to more than a handful of actual graduates. If prevailing wages are repealed unions will be hard pressed to maintain the quality and quantity of qualified apprentices. The State as well as Lodi will suffer as a result.

Finally, we believe you will be sending you are sending the wrong message to workers and citizens of this community. Public construction jobs constitute almost one-fourth of the construction activity in California. They provide an opportunity for state and local government to set a standard for working local working conditions while paying a fair wage in the process. By repealing prevailing wage, Lodi will be sending the message that it is okay for local workers and contractors to be replaced by fly-by-night contractors utilizing low skilled, out of state and undocumented workers to build city projects.

There are myriad other reasons to keep prevailing wages. Please consider more than the hollow promise of short term cost savings by repealing prevailing wages. Your decision will affect thousands of people in your community.

Sincerely,

A handwritten signature in cursive script that reads "Bob Balgenorth".

Bob Balgenorth
President

RESOLUTION NO. ~~95-526~~

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF SEP 0 5 1995

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SACRAMENTO, CALIFORNIA, RELATING TO MAINTAINING DAVIS-BACON PREVAILING WAGE STANDARD IN CALIFORNIA

WHEREAS, the construction industry plays a vital and important part in the economic well-being of the City of Sacramento by providing jobs and a steady stream of revenue into the community; and

WHEREAS, a dynamic and growing construction industry is dependent on a workforce of highly trained and skilled construction workers; and

WHEREAS, the wages determined to prevail in local communities are required to be paid to construction workers on state and local agency public works projects and which are responsible for maintaining a stable and skilled work force, providing a living wage to workers and their families providing health and retirement benefits to workers and their families, and helping to support apprenticeship training programs; and

WHEREAS, the University of Utah recently completed an in-depth study of the economic impacts resulting from the repeal of prevailing wage legislation in nine states and which conclusively shows that the wages of all construction workers, union and non-union alike, were

FOR CITY CLERK USE ONLY

RESOLUTION NO.: ~~95-526~~

DATE ADOPTED: SEP 0 5 1995

significantly reduced, that the states lost substantial income and sales tax revenues which far exceeded any savings realized on the cost of public works projects, that construction workplace injuries skyrocketed because of the use of unskilled workers, that apprenticeship training was reduced by almost half, and that construction project experienced an increased number of cost overruns and change orders; and

WHEREAS, all available evidence conclusively proves that California's prevailing wage requirements do not inflate the cost of public works, but to the contrary, help maintain a highly trained and stable work force who reside in the communities where they are employed;

NOW, THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO, CALIFORNIA, to recognize the importance of prevailing wage laws, reaffirm its unwavering commitment to uphold prevailing wage requirements on City public works projects; and declare its desire that these laws be continued without change; and

BE IT FURTHER RESOLVED, that the City Clerk transmit a copy of this resolution to the Governor, the Director of the Department of Industrial Relations, and appropriate members of the State Legislature.

JOE SERNA, JR.

Mayor

ATTEST:

VALERIE BURROWES

City Clerk

(SEAL)

FOR CITY CLERK USE ONLY

RESOLUTION NO.:

95-526

DATE ADOPTED:

SEP 05 1995



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FAX (209) 334-0930

Mayor Warner
CVO City Hall
221 W. Pine St.
Lodi, CA 95240

March 6, 1996

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As a concerned employer, I am voicing my opinion in regards to changing Lodi to a charter city. If one of the reasons behind this is to save money on prevailing wage jobs, I feel the city should keep their economic thinking to city business and not to the private sector business. We have enough government involvement and regulation in private business now and we can not afford any more.

In my opinion, city council and staff should work on internal city economics. Perhaps using time more efficiently by all city employees, cost effectiveness in some in house services, and maybe hiring temps instead of paying expensive overtime during your busiest seasons.

By keeping a liveable wage for contractor employees, it insures us of a better quality of living, housing, education, and a more prosperous community. Better paid people tend to spend well and invest wisely and I feel that this is important for Lodi.

Sincerely,

Jim Munro
President



M E M O R A N D U M F R O M T H E
O F F I C E O F T H E C I T Y
A T T O R N E Y

DATE: March 6, 1996

TO: Honorable Mayor & City Council Members

FROM: Randy Hays, City Attorney

RE: Prevailing Wage A Perspective

In reviewing the file which I have regarding the prior activities of the City Council relative to the question of a city charter, one of the items that seems to be of importance is the question of prevailing wage. Therefore the purpose of this memo is to flesh out that topic relative to some real numbers. The real numbers are based upon information provided to me by the Public Works Department regarding public works projects that include general fund funded projects and enterprise fund funded projects.

The key here is that only those public works projects which contain only City of Lodi dollars are counted. That is because if you have a public works project which has state dollars or federal dollars in it, it is required under the terms of the receipt of those dollars that either California Prevailing Wage Rates are paid or that federal Davis-Bacon Act wage rates are paid. There is no way around those requirements. With regard to the numbers provided a couple of assumptions were made. On an average it is assumed that fifty percent of the dollars in a public works project are attributable to labor. That doesn't hold true for all projects. Some of the projects were significantly less labor intensive. Those were assumed to have labor costs of twenty percent.

The following numbers represent the labor dollars that were susceptible to some savings possibly for the years listed:

1991	\$ 52,632
1992	\$ 32,495
1993	\$ 21,347
1994	\$ 446,928
1995	\$1,011,834

These numbers represent dollars from the general fund. It should also be pointed out that 1994 and 1995 really represent inflated numbers since in those years the City had extraordinary expenses associated with the refurbishing undertaking of old City Hall.

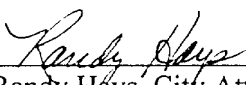
For enterprise fund expenditures the figures are as follows:

1991	\$136,650
1992	\$205,547
1993	\$ 57,499
1994	\$226,796
1995	\$446,574

Whether or not any money would be saved by not being compelled to pay prevailing wage on the labor numbers just referenced is the real subject of the debate. However, there is certainly an argument to be made that some savings would occur. The level of savings that can occur is really not a known quantity. However, you frequently hear numbers in the range of 15 to 20% being available to be saved. If for the sake of argument you use 15 or 20% the amount of dollars that potentially can be saved on labor costs would simply be that percentage times the numbers that are contained in this memo for the various years.

This memo does not attempt to say that there in fact would be savings since it is not possible to know how a particular job would be bid. The idea of this memo however is to put some flesh onto a skeleton in order to guide any discussion on this issue.

Respectfully submitted,



Randy Hays, City Attorney

cc: City Manager